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Cotton and Products

Annual

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Approved by:

Chad R. Russell
U.S. Embassy, FASNEWDELHI

Prepared by:

Sayed Sarwer Hussain

Report Highlights:

MY 2004/05 cotton imports are forecast to increase by 7.5 percent to 360,000 ton. New spinning mills are the main driving force for higher imports and consumption. The U.S. cotton share is likely to remain at 19 percent despite strong competition from CIS countries.

Includes PSD Changes: Yes
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SECTION I: SITUATION AND OUTLOOK

Production

Assuming a normal monsoon, minimal pest infestation, and an enhanced government procurement prices for raw cotton, MY 2004/05 (Aug-Jul) cotton production is forecast at 15,250 tons from 50,000 hectares. MY 2003/04 production was 14,950 tons from 49,118 hectares. As cotton is grown mostly on marginal lands, productivity is low, although the yield potential is much higher. Due to a strong preference for cotton in textile manufacturing, production of man-made fibre (polyester) is low, forecast at 1,600 tons in MY 2004/05 compared with an estimated 1,560 tons in MY 2003/04.

With a tremendous capacity growth in the spinning sub-sector, the MY 2004/05 yarn production is forecast at 310,000 tons, while fabric production is forecast at 1.30 billion meters. Spurred by large imports of raw cotton and increased capacity utilization, yarn production in MY 2003/04 increased by 5.5 percent to 290,000 tons and fabric production by 2.4 percent to 1.26 billion meters.

In the past 5 to 6 years, the spinning sub-sector has been growing at an annual average rate of around 10 percent. During the same period, the number of textile spinning units increased from 148 to 202, with a 50 percent capacity expansion.

The small-scale handloom industry dominates the weaving sub-sector with a production of 810 million metres of fabrics in MY 2003/04, which is about 52 percent of the total domestic requirement of 1.56 billion meters. Handloom products, especially grey fabrics, are now used as an accessory in garments manufactured for exports. Bangladesh currently exports about 15-20 million meters of fabric through the export-oriented, ready-made garment (RMG) industry, a major share of these apparels going to Europe and the U.S.

The textile industry is the largest manufacturing sector in Bangladesh, which provides employment to about 4 million people (including 1.8 million in the RMG industry), accounts for 5 percent of the country's GDP, 40 percent of manufacturing value addition, and 77 percent of total foreign exchange earnings. The export-oriented RMG units recorded export earnings of \$4.86 billion in 2000-2001, \$4.5 billion in 2001-2002, and \$4.9 billion in 2002-2003.

Consumption

Raw cotton consumption in MY 2004/05 is forecast to increase to 370,00 tons from 346,000 tons, in 2003/04. Increasing demand from the rapidly growing private spinning sector, fuelled by new spinning mills coming into operation, combined with high level of imports contributed to the growth.

Cotton yarn consumption in MY 2004/05 is forecast to increase by 3 percent to 548,000 tons from an estimated 532,000 tons in MY 2003/04. Fabric consumption is forecast to reach 3.9 billion meters in MY 2004/05 from 3.8 billion meters in MY 2003/04. The MY 2003/04 estimate comprises 1.25 billion meters for domestic consumption and 2.55 billion meters for export oriented garments.

The price of locally produced export quality yarn is almost one dollar per kilogram higher than the price of imported yarns due to lack of technical expertise by mills, outdated machinery, and high wastage (nearly 25 percent). A similar price difference exists between locally produced export quality fabrics and imported fabrics. This is the reason for low usage of domestic yarn and fabrics by the RMG sector. Moreover, the locally produced fabrics face

competition from foreign fabrics imported under back-to-back letters of credit (LC). These imported fabrics illegally leak into the domestic market from bonded warehouses.

The share of cotton usage in the textile industry is increasing vis-à-vis man-made fiber due to its larger availability from imports at reasonable prices. Nevertheless, polyester and poly blends are still popular among the lower income population due to its lower cost. Man-made polyesters are usually blended with cotton at different ratios to meet the purchasing power and quality requirement (mostly durability) of consumers.

The Bangladesh private textile sector is now capable of meeting 90 percent of the domestic requirement of yarn and fabrics, 90 percent of knit fabrics, and 40 percent cotton woven fabrics of RMG exports. Local value addition has increased from 25 percent in 1994 to nearly 72 percent in 2003.

Trade

Raw cotton imports in MY 2004/05 are forecast to increase to 360,000 tons, mainly to feed the increased demand generated by the rapidly expanding spinning sub-sector. Due to large carry-over stocks, MY 2003/04 imports estimates were lower at 335,000 tons. The CIS countries continued to remain the largest supplier, with a market share of 37 percent, due to low prices, and transportation costs, and shorter delivery period. The United States has a consistent market share of 18 to 25 percent by virtue of the high quality of its raw cotton and good terms of trade with Bangladeshi buyers. The year-to-year share, however, varies on the basis its price competitiveness vis-à-vis CIS cottons. Other major suppliers are Australia, Sudan, Egypt, Pakistan, and occasionally India.

Cotton yarn imports in CY 2003 are estimated at 258,000 tons, a 13.4 percent drop from the CY 2002 level, due mainly to higher local production and strong international prices. Due to increased availability of locally manufactured, high quality yarns, imports in CY 2004 are forecast to further slide to 242,000 tons. A ban on Indian yarn imports through land borders put the local yarn at a competitive edge. But still, India continues to be the largest source of yarn with a market share of 72 percent.

In spite of higher domestic fabric production and high carry-over stocks, fabric imports in CY 2004 are forecast at the CY 2003 level of 2.5 billion meters, due to the growth in domestic demand, both for local consumptions and by the RMG sector. Due to price advantages in quality categories preferred by local consumers and the RMG sector, China continued to dominate the Bangladesh cotton fabric imports market, with a share of 75 percent in CY 2003.

Marketing

Bangladesh is almost entirely dependent on imports to meet the rapidly growing demand for raw cotton. Moreover, 40 percent of the raw cotton imports are meant for the export-oriented RMG sector. Trade sources believe that the withdrawal of cotton subsidy in rich countries like the U.S. would result in a surge in international cotton prices, which would severely affect the local textile sector, and curtail export earnings. Bangladesh textile mills prefer to procure cottons from the U.S. as the quality is much superior to the CIS and African cotton in terms of quality, supply reliability, and wastage. Bangladeshi buyers are willing to pay a reasonable premium for US raw cotton, but high freight costs and longer delivery periods in many cases force them to seek other sources. However, with the modernization of the spinning sub-sector along with Cotton USA programs to establish close contact and relationship between Bangladeshi buyers and the US supplier, US share in the Bangladeshi imported cotton market is gradually improving. The duty structure of raw cotton, yarn and

fabrics imports are shown in Table-8. Export oriented yarn and fabric imports enjoy duty draw back provisions.

The Textile Ministry has demanded the creation of a \$1.75 billion Textile Industry Development Fund on an urgent basis to help the country's textile and clothing sector face the quota-free regime beginning on January 1, 2005. Despite setting up a number of backward linkage industries, the country still has large shortfall in fabrics and yarn production, which would negatively impact export earnings from the RMG sector in the post-Multi-Fiber-Agreement (MFA) era. The country at present needs to set up between 75 and 80 spinning mills with a capacity of 25,000 spindles, 80 weaving mills with a capacity of 120 shuttle-less looms, 120 dyeing and finishing plants, and 50 units of knit fabrics plants to meet the post-MFA need.

SECTION II: STATISTICAL TABLES

Table 1: Commodity, Cotton (Metric Tons), PSD

PSD Table							
Country:	Bangladesh						
Commodity:	Cotton						
		2002		2003		2004	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		08/2002		08/2003		08/2004	(MONTH/YEAR)
Area Planted	48000	48000	50000	50000	0	50000	(HECTARES)
Area Harvested	48000	47640	45287	49118	0	50000	(HECTARES)
Beginning Stocks	41586	41586	45287	68607	0	72557	METRIC TONS
Production	15023	14323	15241	14950	0	15250	METRIC TONS
Imports	315704	349998	332033	335000	0	360000	METRIC TONS
TOTAL SUPPLY	372313	405907	392561	418557	0	447807	METRIC TONS
Exports	0	0	0	0	0	0	METRIC TONS
USE Dom. Consumption	326590	336500	342919	345000	0	369000	METRIC TONS
Loss Dom. Consumption	436	800	436	1000	0	1000	METRIC TONS
TOTAL Dom. Consumption	327026	337300	343355	346000	0	370000	METRIC TONS
Ending Stocks	45287	68607	49206	72557	0	77807	METRIC TONS
TOTAL DISTRIBUTION	372313	405907	392561	418557	0	447807	METRIC TONS

Table 2: Commodity, Cotton (480 lb Bales), PSD

PSD Table							
Country:	Bangladesh				Conversion	0.0045929	
Commodity:	Cotton						
		2002		2003		2004	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		08/2002		08/2003		08/2004	(MONTH/YEAR)
Area Planted	48000	48000	50000	50000	0	50000	(HECTARES)
Area Harvested	48000	47640	45287	49118	0	50000	(HECTARES)
Beginning Stocks	191	191	208	315	0	333	1,000 480lb bales
Production	69	66	70	69	0	70	1,000 480lb bales
Imports	1450	1608	1525	1539	0	1653	1,000 480lb bales
TOTAL SUPPLY	1710	1864	1803	1922	0	2057	1,000 480lb bales
Exports	0	0	0	0	0	0	1,000 480lb bales
USE Dom. Consumption	1500	1546	1575	1585	0	1695	1,000 480lb bales
Loss Dom. Consumption	2	4	2	5	0	5	1,000 480lb bales
TOTAL Dom. Consumption	1502	1549	1577	1589	0	1699	1,000 480lb bales
Ending Stocks	208	315	226	333	0	357	1,000 480lb bales
TOTAL DISTRIBUTION	1710	1864	1803	1922	0	2057	1,000 480lb bales

Table 3: Commodity, Cotton, Import Trade Matrix

Import Trade Matrix			
Country:	Bangladesh	Units:	Metric tons
Commodity:	Cotton		
Time period:	Aug-Jul		
Imports for	2002		2003
U.S.	78000	U.S.	68000
Others		Others	
CIS	124000	CIS	125000
Africa	46000	Africa	35000
Australia	26000	Australia	23000
South America	18000	Pakistan	30000
Pakistan	26000	South America	20000
		India	10000
Total for Others	240000		243000
Others not listed	32000		24000
Grand Total	350000		335000

Table 4: Commodity, Cotton Yarn, Import Trade Matrix

Import Trade Matrix			
Country:	Bangladesh	Units:	Metric tons
Commodity:	Cotton Yarn		
Time period:	Jan-Dec		
Imports for	2002		2003
U.S.	0	U.S.	0
Others		Others	
India	200000	India	179000
Pakistan	30000	Pakistan	24000
Indonesia	16000	Indonesia	9000
Thailand	18000	Thailand	14000
Taiwan	12000	Taiwan	8000
Total for Others	276000		234000
Others not listed	22000		24000
Grand Total	298000		258000

Table 5: Commodity, Fabrics, Import Trade Matrix

Import Trade Matrix			
Country:	Bangladesh	Units:	Mil. Meters
Commodity:	Fabric		
Time period:	Jan-Dec		
Imports for	2002		2003
U.S.	0	U.S.	0
Others		Others	
China	1860	China	1848
Pakistan	152	Pakistan	145
India	240	India	247
Indonesia	40	Indonesia	25
Thailand	58	Thailand	60
Total for Others	2350		2325
Others not listed	130		135
Grand Total	2480		2460

Table 6: Area and Production of Raw cotton

YEAR	AREA IN HECTARE	PRODUCTION	
		Bales*	Tons
1999-00	48260	83575	15195
2000-01	29100	40500	7364
2001-02	51186	83800	15234
2002-03	47640	74640	14323
2003-04	49118	82140	14949

*1 bale = 400 lbs.

Source: Cotton Development Board (CDB)

Table 7: Production and Consumption of Yarn and Fabrics

Year	Production Yarn ('000' tons)	Production Fabrics (Mill. Meters)	Consumption Yarn ('000' tons)	Consumption Fabrics (Mill. Meters)
1999/00	145	1160	488	3650
2000/01	174	1180	495	3675
2001/02	192	1190	500	3690
2002/03	275	1230	525	3740
2003/04	290	1260	532	3800

Sources: Bangladesh Textile Mills Association (BTMA), Bangladesh Garments Manufacturers and Exporters Association (BGMEA), and Ministry of Textiles, GOB

Table 8: Tariff Structure of Textile Sector

Items	Import Duty	VAT	Advance Income Tax	Development Surcharge	License Fee LF	Total
Raw Cotton	-	-	-	-	-	-
Man-made Fibre	-	-	3%	2.5%	2.5%	8%
Yarn	7.5%	15%	3%	2.5%	2.5%	30.5%
Fabric	37.5%	15%	3%	2.5%	2.5%	60.5%
Starch/Glue/Gum	7.5%	15%	3%	2.5%	2.5%	30%

Source: National Board of Revenue (NBR), GOB

Table 9: Bangladesh Garment Exports (Fiscal Year)

Year	Million US\$	Year-to-Year Growth (%)
1990-91	866.82	-
1991-92	1182.57	36.43
1992-93	1445.02	22.19
1993-94	1555.79	7.67
1994-95	2228.35	43.23
1995-96	2547.13	14.31
1996-97	3001.25	17.83
1997-98	3781.94	26.01
1998-99	4019.98	6.29
1999-00	4349.41	08.19
2000-01	4859.83	11.74
2001-02	4583.75	-5.68
2003-04	4912.00	7.16
Average Growth Rate:		16.28

Source: Export Promotion Bureau (EPB)